

SCAQMD RECLAIM & ERC Market Overview

Prepared for:

ERC & RTC Price Stabilization Working Group



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Agenda

- Trading Structures
- Definitions
- Traders Roles
- Examples of Transactions

Trading Structures

- Private placement
- Bi-lateral sales
- Auction
- Swaps
- Options (Calls and Puts)
- Forward Sales
- Contingent Transactions

People in the Market

- Naturals – compliance driven buyers and sellers, including new projects and companies intending to use credits to meet other obligations not directly related to SCAQMD compliance requirements.
- Traders – companies taking ownership position in credits for the sole purpose to profit from the purchase, sale or swap of credits. Includes, investors, portfolio managers, market makers, hedge funds, financials, private equity firms, etc.
- Brokers – intermediaries who connect transaction counter-parties, provide advice and transaction related services. Do not own the credits.
- Note – there are numerous examples of companies taking on more than one role at various times

Foreign Investors

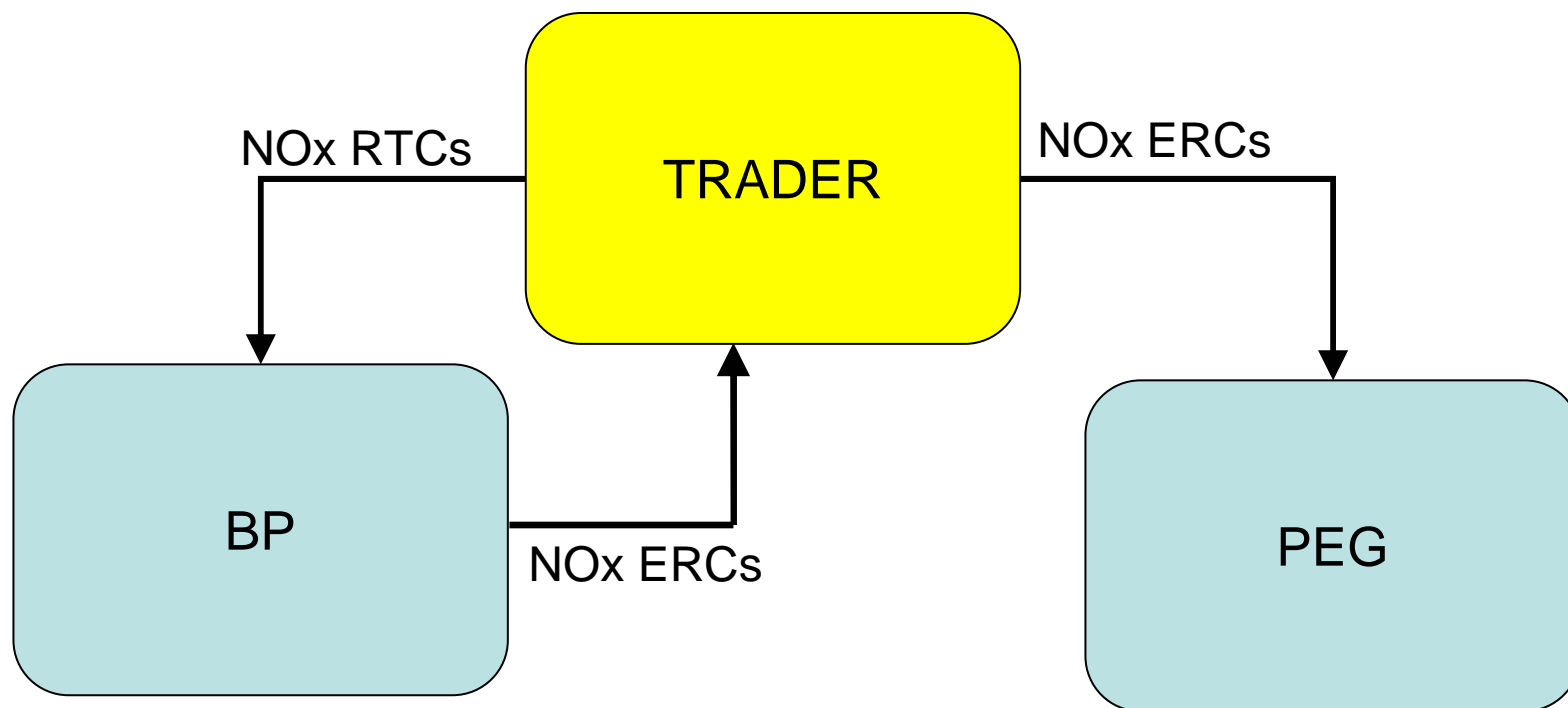
- 2 Companies have opened RTC accounts and have indicated their primary address is in a foreign country
- These “Foreign” Traders currently DO NOT have any RTC holdings
- These Foreign Traders currently hold 140 lbs/day of ROG ERCs, representing about 1% of the SCAQMD ROG bank

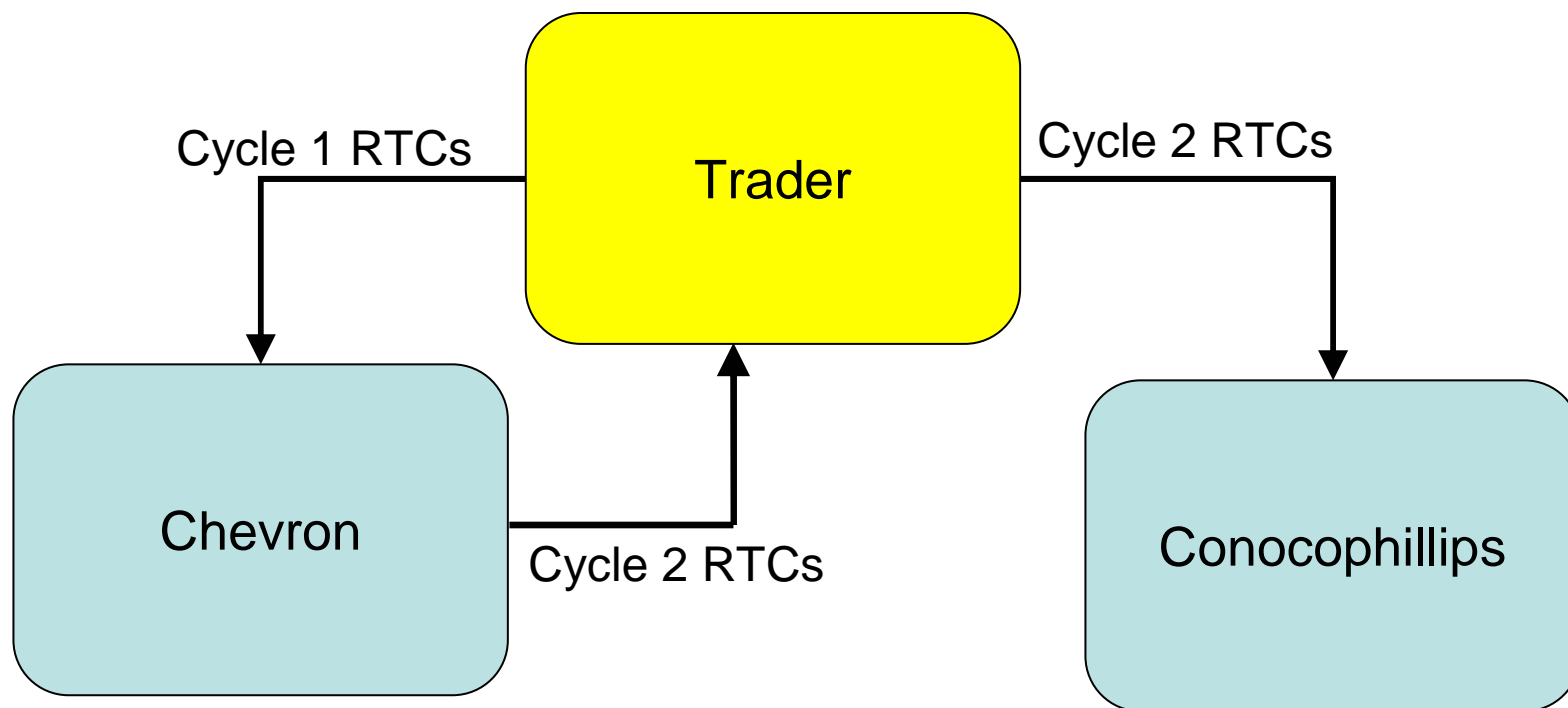
Traders Roles

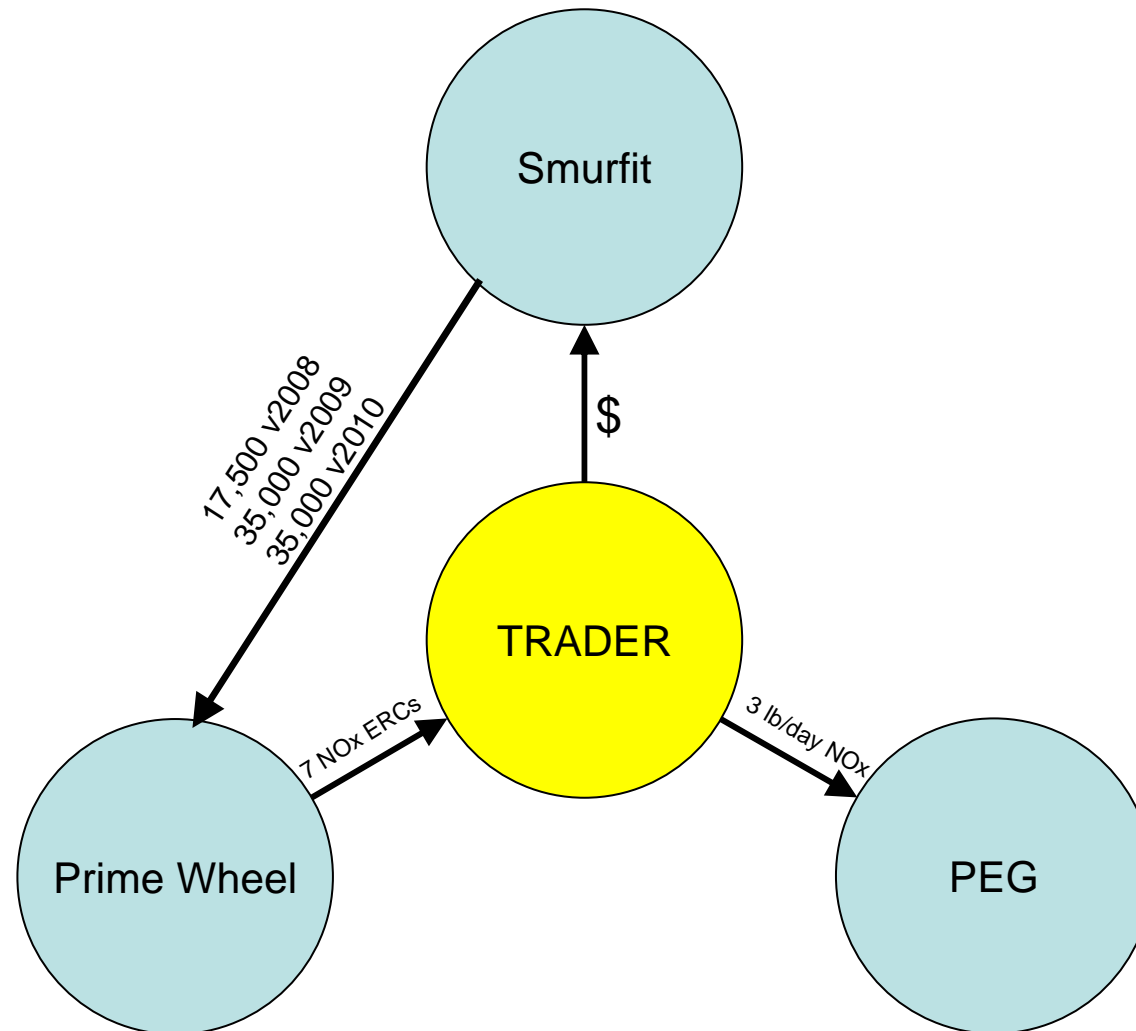
- Provide Liquidity
- Transparency
 - Frame Markets
 - Price Discovery
 - Conduit for Market Information
- Efficiency
- Anonymity

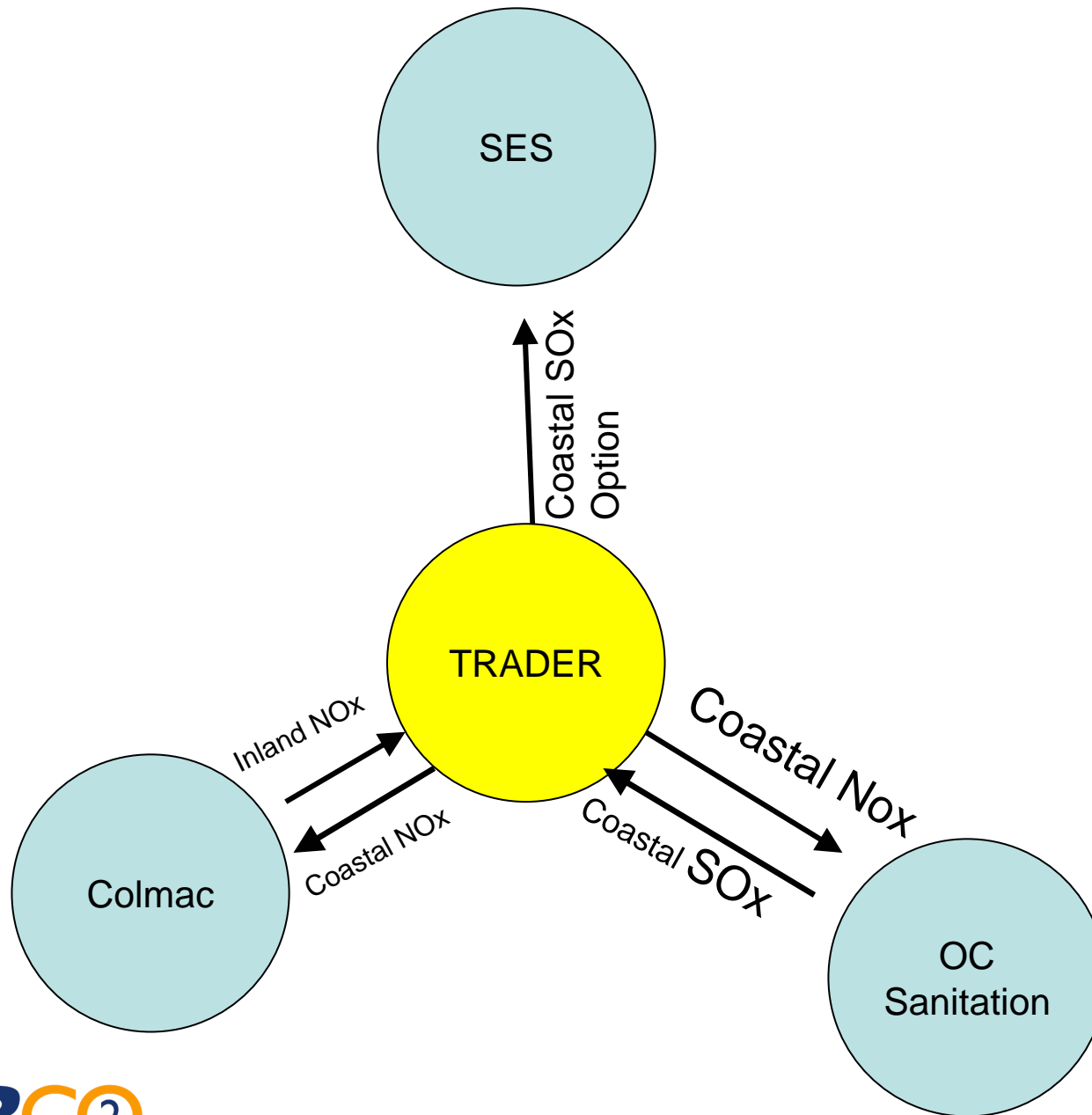
Liquidity

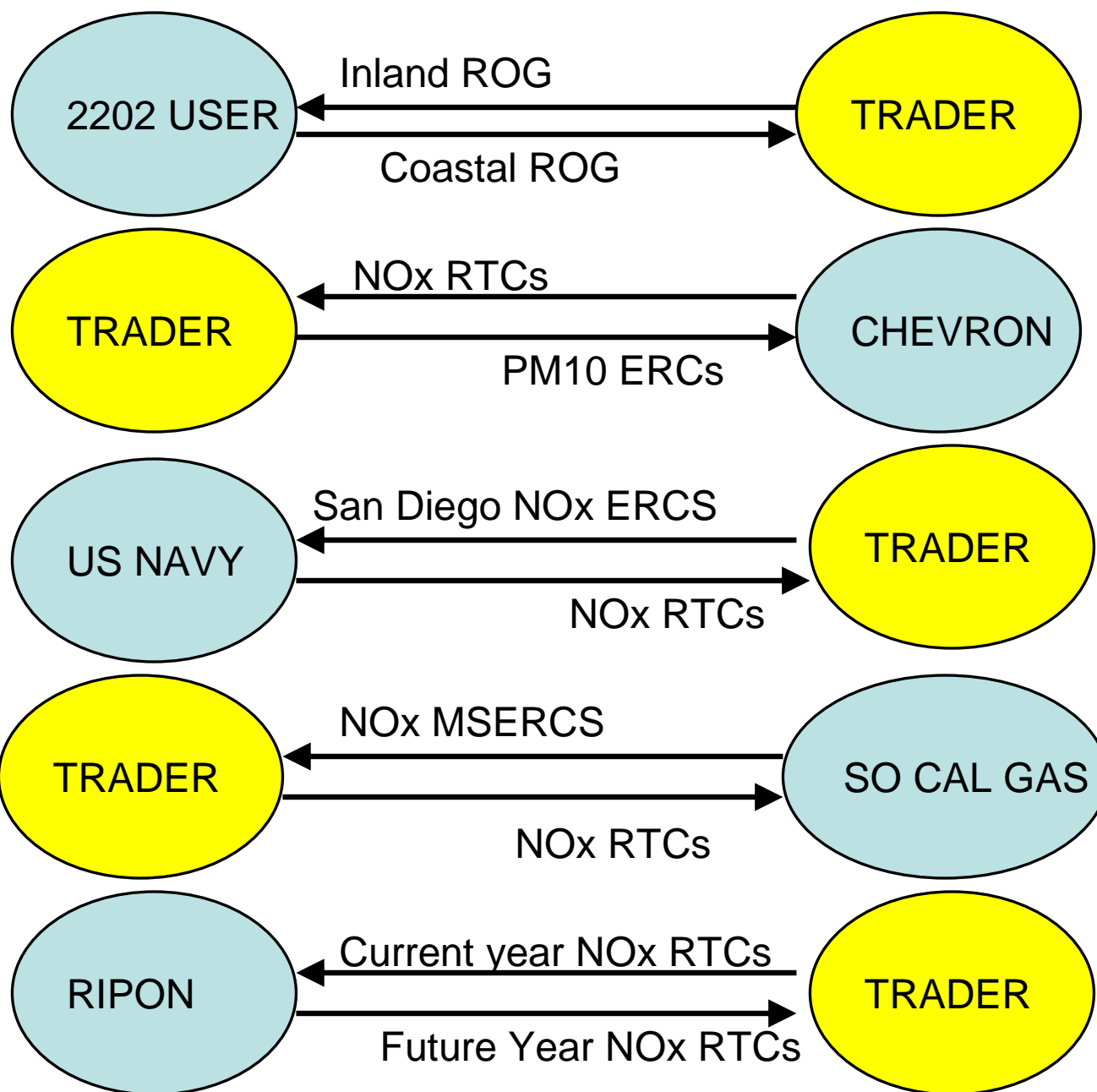
- Available to Transact Every Day
- Flexibility to execute complex structures
 - Options
 - Swaps
 - Forward Settlements
 - Contingent Transactions
- Ability to take credit and market risk
 - Bankruptcy
 - Example: Trader advanced money to National RV for ROG ERC sales proceeds which National RV used to meet payroll while in bankruptcy
 - Un-created credits – fund the process











TRANSPARENCY

- Frame Markets
 - Provide daily Bids and Offers
- Price Support and Discovery
 - Frequent transaction support market volumes and price
- Conduit For Market Information
 - Providing Brokers and other market participants information on:
 - Market activity
 - Transaction Prices
 - Volumes

CANTOR ENVIRONMENTAL BROKERAGE REAL-TIME MARKET DETAIL

[LINK TO TRADE, PLACE A BID](#)

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Info	<u>Qty</u>	<u>\$ / RTG</u>	<u>Cycle</u>	<u>Zone</u>	<u>Comment</u>	<u>Agg. Qty</u>

	9/5/2006	6,000	2.0000
6357 South Coast Nox RTC 2006 Cycle 2, Coastal			
6359 South Coast Nox RTC 2006 Cycle 2, Coastal			
6369 South Coast Nox RTC 2006 Cycle 2, Coastal			
6322 South Coast Nox RTC 2006 Cycle 2, Coastal			



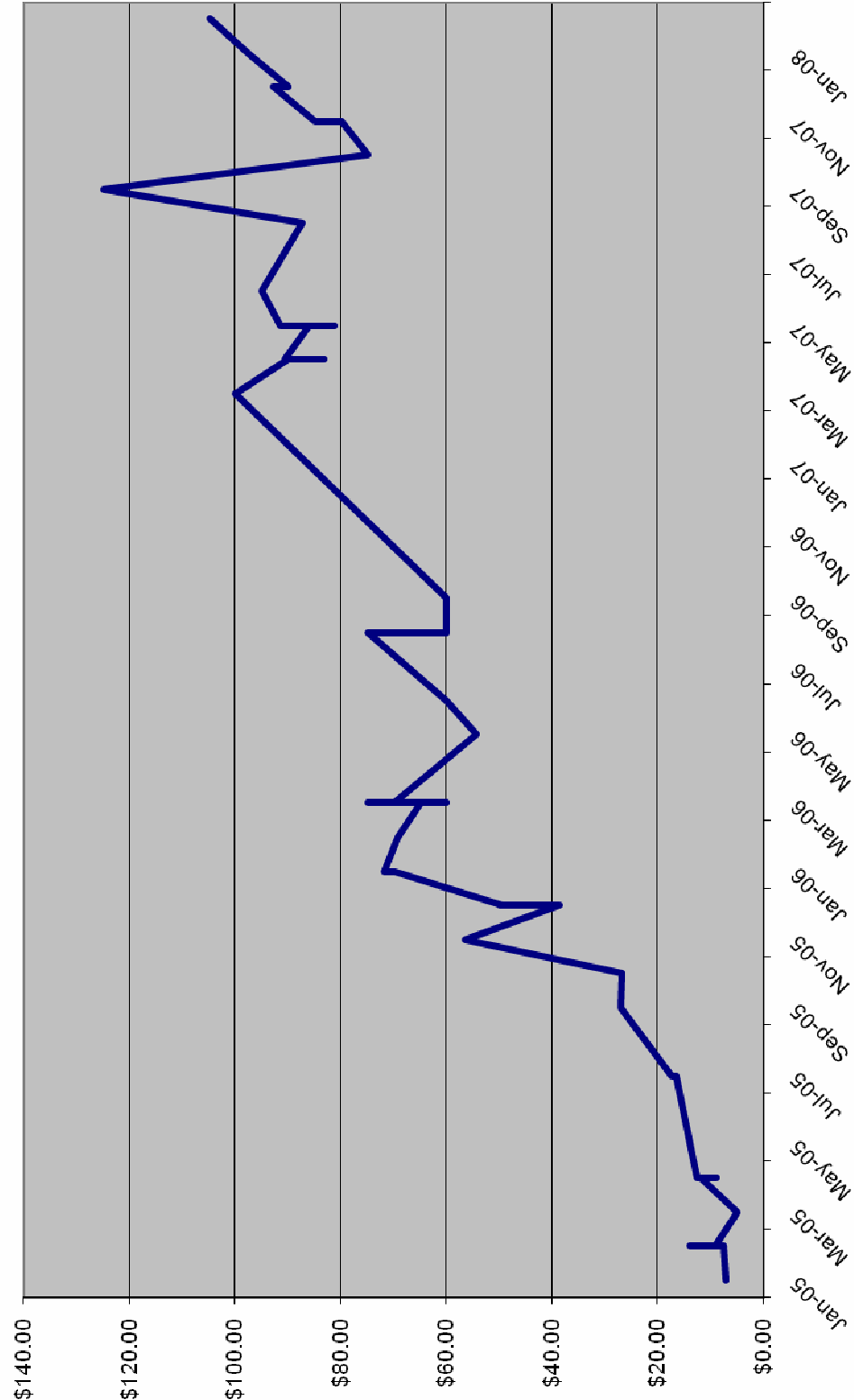
EFFICIENCY AND ANONYMITY

- Efficiency
 - Aggregate Supply
 - Availability to transact
 - Willingness to trade small size
- Anonymity
 - Bridging between parties not otherwise willing to transact with each other

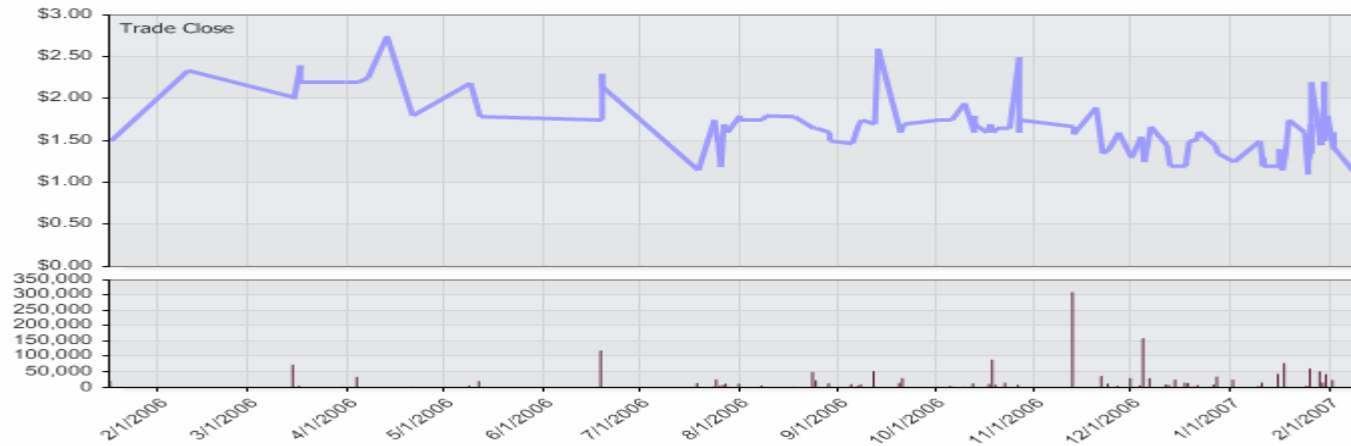
RTC Market Factors

- NOx and SOx RTC Shave (current and projected)
- Changing rules and program evaluations causing uncertainty – reluctance to invest in technology or RTCs
- Facilities afraid to sell future surplus
- EGUs returning to market putting downward pressure on 2007-2010
- Uncertainty associated with Priority Reserve

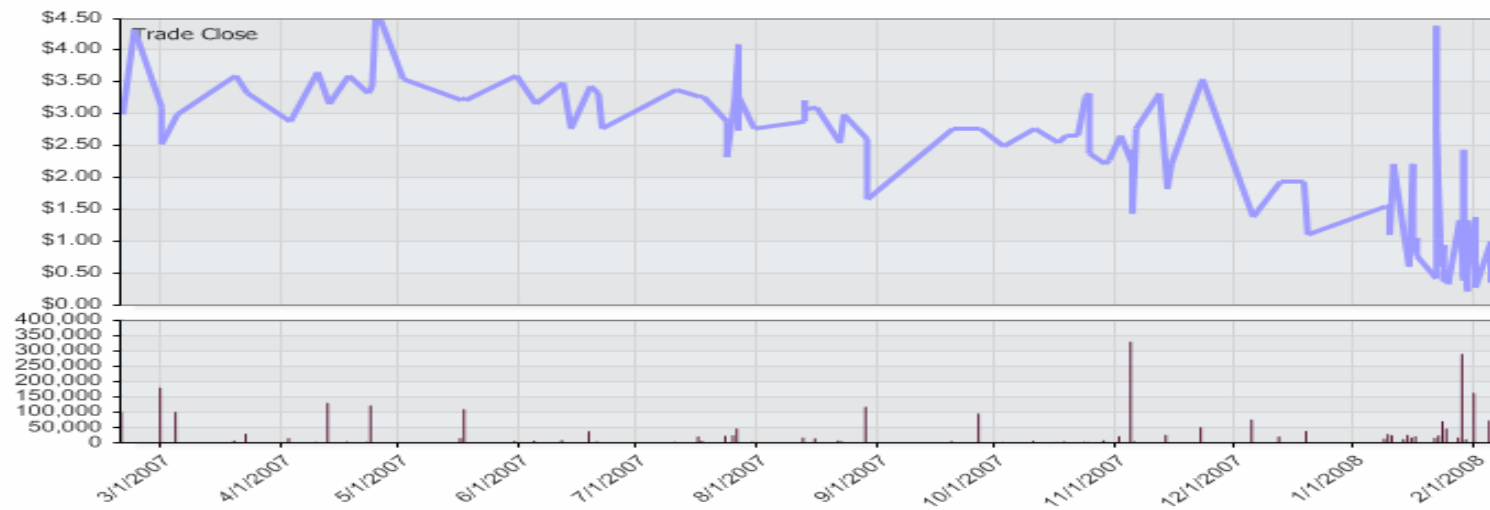
Cost of Nox RTC 2010+ Streams Traded 2005 - 2008



VINTAGE 2006 CYCLE 1		
RTCs Traded 1/1/2006 – 2/12/2007	Percent of Trades with Traders	Total Market Change \$/RTC
1,930,359	65%	↓\$1.35



VINTAGE 2007CYCLE 1		
RTCs Traded 1/1/2007 – 2/12/2008	Percent of Trades with Traders	Total Market Change \$/RTC
2,990,419	72%	↓\$4.25



ERC Market Factors

- SUPPLY DEMINISHING IN ALL ERC MARKETS
- Significant Supply in Bank earmarked for Projects
- Facilities holding ERCs afraid to sell
- Priority Reserve pushing prices up for available ERCs
- Inability to get new supply certified in timely manner
- Pricing uncertainty makes potential new ERC supply sources unwilling to invest in technology.